



May 16, 2012

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Dear Mr. Lynch, Mr. Hoesly, and Mr. Ross:

Based on several recent discussions with commercial health insurance issuer representatives about issues related to the currently underway 2012 small and large employer group rate factor review process in Rhode Island, the State of Rhode Island Office of the Health Insurance Commissioner (OHIC) is providing the following supplementary guidance on four issues related to the review process. These issues relate to OHIC's expectation that issuers submit a medical expense trend factor that does not exceed four percent for either small group or large group business as part of this year's review process as well as to the "expected overall average premium trend" that will be approved for each issuer in the small group market and in the large group market as the culmination of the review process.

1. Timing of the Application of Trend Factors

The issuers generally apply their trend factors over approximately 30 months on average, projecting 2011 experience centered on July 1, 2011 to a rating period beginning on average on July 1, 2013 and centered on January 1, 2014. Currently, the issuers have approved trend factors for use in 2012 renewals. As already noted, they are expected to submit a medical expense trend factor that does not exceed four percent for either small group or large group business for use in 2013 renewals. In light of this situation, OHIC wishes to clarify that it intends to permit the equivalent of the approved 2012 factors through the 2012 rating year and is directing the issuers to use the four percent maximum medical expense trend factor for projection into the 2013 rating year.

2. Definition of the Four Percent Maximum Medical Expense Trend Factor

The four percent maximum medical expense trend factor should be thought of as the pricing trend—including price, utilization, leveraging, and similar adjustments. OHIC does not expect that the medical expense trend factor would incorporate anticipated changes in demographic factors.

3. Treatment of a Change in Base Rates Not Captured in the Four Percent Maximum Medical Expense Trend Factor

A change in base rates not captured in the four percent maximum medical expense trend factor would be considered to be part of the expected overall average premium trend, which is subject to review and approval. If a change in base rates appeared to result in rates that increased more than would be expected because of the use of a maximum four percent medical expense trend factor, justification would need to be offered by the issuer and the rate increase would be reviewed critically.

4. Treatment of an Increase to Average Demographic Factors in Relationship to the Expected Overall Average Premium Trend

In general, it is OHIC's view that issuers at risk for demographic changes under the expected overall average premium trend. However, OHIC also recognizes that issuers have limited blocks of business that are subject to variation because of economic effects on membership, changes in enrollment within groups, and changes in enrollment by group, etc. If an issuer can demonstrate that a change in demographics resulted in an average rate increase over what has been approved as the expected overall average premium trend, OHIC will review the demonstration in order to understand the circumstances and to ensure that both consumers and issuers are dealt with fairly.

Finally, as noted in our initial guidance letter concerning the review process, all materials called for should be submitted to OHIC via the System for Electric Rate Form Filing by May 18, 2012. This deadline remains unchanged. If you have any questions regarding the review process, please feel free to contact me at (401) 462-9643 or patrick.tigue@ohic.ri.gov. When responding to questions, OHIC will brief all issuers collectively where possible so as to ensure consistent information. Thank you for your continued cooperation with this process.

Sincerely,



Patrick M. Tigue
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CC: Christopher F. Koller
Health Insurance Commissioner